VALUEWORKS
QUALITY ASSETS COMPELLING VALUATIONS

VOLUME 16,4 FOURTH QUARTER 2018

We used turmoil in the second half of 2018 to redeploy capital in to some very compelling investment names. As the rout extended, some of those names became even more compellingly priced. At the end of the period our Capital Appreciation portfolio ended the year down -10.1%, compared to -4.6% on the S&P500. While these declines are never fun, our portfolios at year end now represent as good a risk-reward profile as we have seen.

The portfolio is now full of a wide range of investments, each at what we consider historically attractive levels. These include Large Capitalization, very high-quality names, like Apple Inc, American Express, Amgen, Comcast, Gilead, Qualcomm and Goldman Sachs, where P/E's range from 6-11 times earnings and where we see a mid-good case target upside in a 12-24-month period of 30-60%. They also include a heavy dose of Mid-Capitalization, solid companies like Brunswick Corp, Newell Brands, Invesco Ltd, Spirit AeroSystems and Micron Technologies, where P/E's range from 4 – 9 times and we think the most likely case is that they trade 75 – 150% higher over the same time frame. We also have built diversified exposure to more volatile, more controversial names like Bed Bath and Beyond, Kulick & Soffa, Transocean Ltd, United Natural Foods, Star Bulk Carries and Tidewater. These admittedly have a different degree of volatility, but we have put these investments in the portfolio because we have confidence in their managements, understand the deep discount at which we are buying their asset base, and can easily envision 100-300% gains from today's levels as investor confidence returns to their businesses.

If you look at our trailing results after bumpy periods like the past few months, they never look great. But even after the recent sharp jolt, over the past 10 years our capital appreciation composite has generated an annual return into the double digits and, depending on how you measure it, has basically tripled from December 31st, 2008. The key to those long-term returns has been focusing less on near-term gyrations but rather keeping an eye on the distant horizon, committing capital when opportunities presented themselves.

The recent market turmoil may be signaling the beginning of tough economic times. But it probably is not. Most of the time market turmoil is exactly that -- market turmoil. If you try to read too much into it, you focus on the wrong things and make investment mistakes. The sharp market rally from November 2016 to January 2018 signaled simply a market that was about to decline 20+% over the next 11 months.

The basic underlying economic fundamentals have not changed since our last letter. The economy is growing at close to 3%, jobs are being added at 200,000 per month, and corporate earnings are expanding. It is true that this trajectory will eventually change as interest rates get high enough. But a ¼% Fed Funds hike in December is not enough to do it. Nothing has happened in the past three months to change my assessment that we are transitioning into the latter stages of a market advance.

TOP 10 HOLDINGS

1. Eli Lilly & Co.
2. Qualcomm Inc.
3. Cliffs Natural Res 6.25% Due 10-01-40
4. Amgen Inc.
5. Corning Inc.
6. Comcast cl A
7. Goldman Sachs Group Inc.
8. American Express Co.
9. Boston Scientific Corp.
10. New York Times Cl A

—As of 12/31/18—

*see notes on pg 4 for additional details

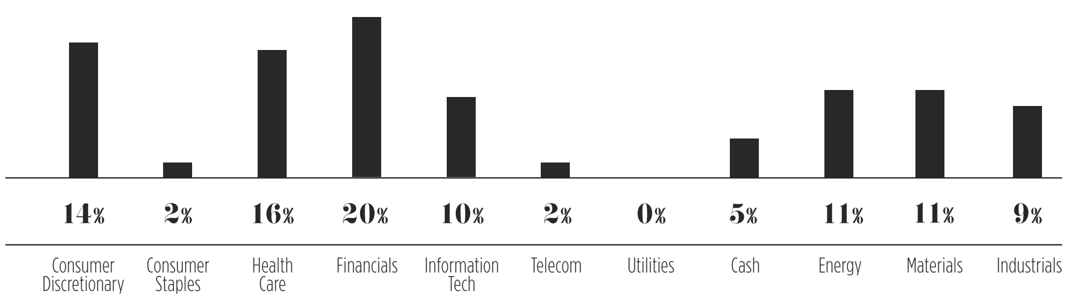
From July to October of 1998, the S&P 500 corrected from very nearly 1200 to around 950, or roughly 20%. That decline did presage a recession roughly two years later. But before that recession started, the S&P advanced by 50% from 950 in October of 1998 to 1,500 in March of 2000. The Nasdaq Composite advanced over 300% over the period. Taking your cue from the 20% correction and moving to the sidelines was quite costly. Using the correction to get further invested worked out much better.

Similarly, the market crash of October 1987, where the S&P 500 declined by a third from 330 to 230 also predated the recession that started in mid-1990. But before that recession started, the S&P had advanced 60% to 370, and then marched higher to 1200 in October of 1998 before correcting again.

It is dangerous to put too much importance on what the market is telling you about the future. One thing it is unequivocally telling you is that many individual investments are priced much lower. We have used this as an opportunity to cull through those investments and reposition the portfolio into names that are now exceedingly well valued.

-Charles Lemonides, CFA

SECTOR DIVERSIFICATION—CAPITAL APPRECIATION COMPOSITE



DEFINING OUR PHILOSOPHY

At ValueWorks we define value investing as buying the best-quality assets at the best possible prices. We like to think of ourselves as bargain hunters: it is our goal to pay only $0.50 to $0.75 for $1.00 worth of assets. We evaluate the component parts of a company, assigning each of its assets a dollar value that, when added together, comprises the underlying value of the company; if this is higher than the company's stock price, we consider it an investment opportunity.

OUR PORTFOLIO STRUCTURE

We believe risk can be better contained through educated security selection than through over-diversification. Consequently, our position sizes range between 3 – 5 % of the overall portfolio value. Fully invested portfolios tend to hold 25 – 35 individual investments.

We enter investments that we view as 25 – 50% undervalued and sell them when we see them as fairly priced. Our anticipated holding period tends to be one to two years which results in only modest portfolio turnover.

Because our decisions are based on research and sound fundamentals we view depressed price action on our securities as buying opportunities rather than sell signals.

We use senior debt and preferred instruments—offerings that can be easily misunderstood by traditional equity or fixed income investors—to gain equity type returns on safer vehicles.

OUR CLIENT SERVICES

ValueWorks provides independent investment management on an individual account basis. Our clients receive the benefits of owning securities directly, coupled with the advantages of having a dedicated portfolio manager.

Working directly with your financial consultant, we evaluate your investment profile and build a plan designed to meet your specific goals. As a high-end investment alternative, you receive:

- Individual review of your portfolio requirements
- A separately tailored portfolio created and maintained to your investment objectives and risk tolerance
- Access to the Portfolio Manager on an ongoing basis with timely and responsive communication
- Flexibility to meet your changing tax requirements and investment needs
- Comprehensive quarterly performance reports.

Working within the framework of our value investment discipline, we build portfolios that cover a wide spectrum of risk-tolerance, from aggressive to much more conservative and income oriented.

DEFINING OUR PROCESS

1 *Identification*

We monitor the financial markets to identify securities that match our investment criteria—focusing on opportunities that appear misunderstood by the general market.

2 *Appraisal*

First we identify the assets; then we appraise them. This allows us to determine the company's underlying value. We then decide whether the assets are of high quality and therefore likely to appreciate over time.

3 *Assessment*

Here we assess any claims against a company's assets; we then compare the market price of the claims to the company's underlying value. If a particular security trades at a discount, we identify factors that could eliminate the valuation gap and increase its price. We then make a decision on the purchase of the security.

4 *Re-Evaluation*

We continuously monitor our positions to determine if our original investment thesis still applies, taking necessary action to optimize our portfolio.

5 *Exit*

We exit a position when a security either reaches full valuation or changes in its outlook invalidate part of our original thesis.

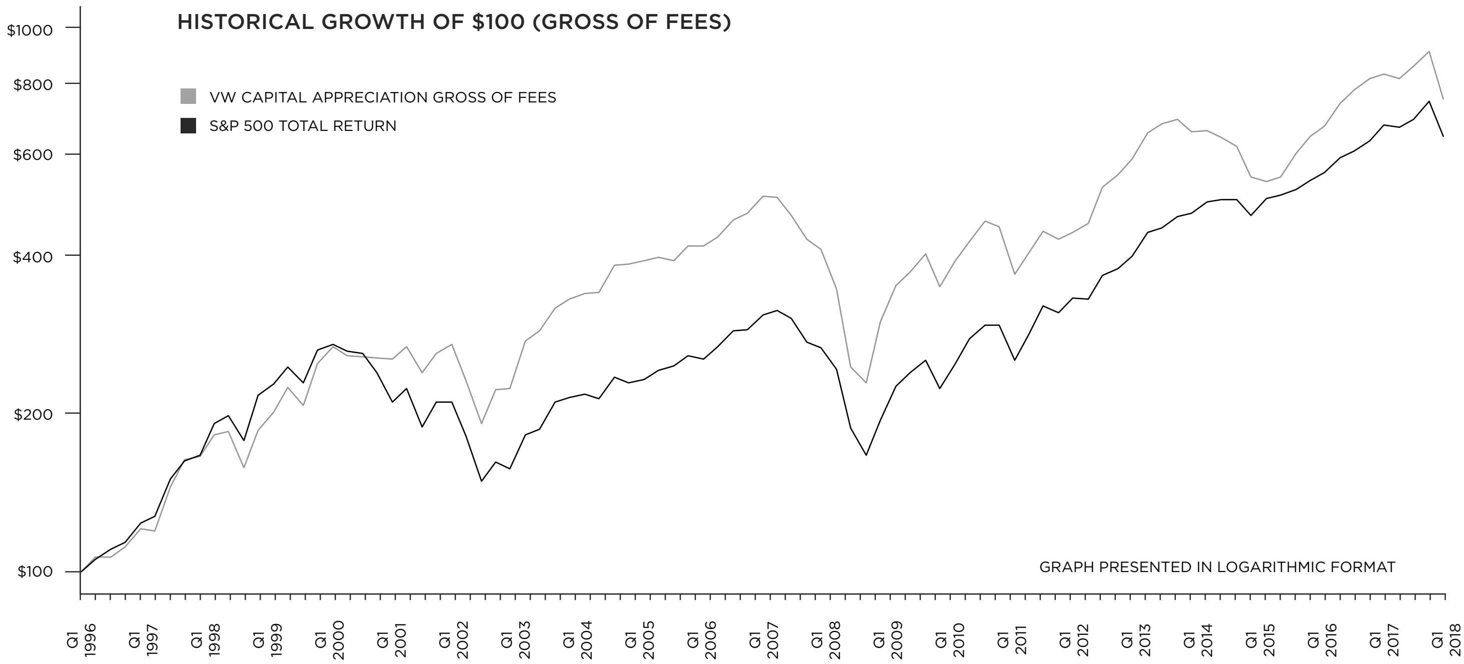
Objective

Our objective is uncomplicated, but achieving it requires a high level of research, expertise, discipline and independent judgment. By applying this framework consistently we remove emotion from the investment decision making process, enabling us to capitalize on inefficiencies built into the market.

VALUEWORKS

PERFORMANCE REVIEW

FOURTH QUARTER 2018 SEPTEMBER 31, 2018—DECEMBER 31, 2018



TRAILING PERFORMANCE DATA

VALUEWORKS' CAPITAL APPRECIATION COMPOSITE

	GROSS OF FEES	NET OF FEES	S&P 500 TR
2018 Q4	-18.03	-18.28	-13.52
2018 YTD	-10.12	-11.14	-4.63
1 year	-10.12	-11.14	-4.63
3 years	12.22	10.93	9.18
5 years	2.85	1.63	8.45
10 years	11.93	10.54	13.06
Life*	9.04	7.50	8.30

*Life is 22.75 years (inception 1/1/1996)

VALUEWORKS' BALANCED COMPOSITE

	GROSS OF FEES	NET OF FEES	BLENDED INDEX*
2018 Q3	-16.36	-16.62	-5.94
2018 YTD	-9.94	-11.10	-1.94
1 year	-9.94	-11.10	-1.94
3 years	9.93	8.49	5.77
5 years	2.94	1.55	5.42
10 years	11.00	9.47	8.42
Life*	9.33	7.66	7.01

*The "Blended Index" is a calculation comprised of 50% S&P 500 and 50% Merrill Lynch Domestic Master Bond Index.

PAST PERFORMANCE MAY NOT BE INDICATIVE OF FUTURE RESULTS.

This Newsletter is intended to be presented with the Capital Appreciation Fact Sheet which contains additional disclosure information.

The above benchmark indices are unmanaged indices. The benchmark performance numbers reflect the reinvestment of dividends and interest but do not reflect the deduction of any fees or expenses. ValueWorks' value investing style is not limited to the securities in any of the above indices and utilizes specific investment techniques which are not utilized in the above indices and which may or may not increase volatility. Returns include all dividends, interest, accrued interest and other cash flows received as they may result from the implementation of a particular investment strategy. Trade date accounting has been used. Results for the full period are time weighted. Accounts are included in composite at the start of the first full period under management. From 1996—Q1 1998 exiting accounts are included through the period in which they left. Starting in Q2 1998 exiting accounts are included through the last full period under management. Results were generated at other firms prior to 9/30/01. Information on other composites is available on request. Investments in this strategy may lose value.
This material is approved for client use.

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